

LOAN AGREEMENT

between

NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY

and

DUKE ENERGY CAROLINAS, LLC

Dated as of October 1, 2007

**Relating to
\$50,000,000**

**North Carolina Capital Facilities Finance Agency
Solid Waste Disposal Revenue Bonds
(Duke Energy Carolinas Project)
Series 2007A**

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LOAN AGREEMENT

This Loan Agreement, dated as of October 1, 2007, is by and between the **NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY**, a body corporate and politic and a public agency and an instrumentality of the State of North Carolina (the "Agency"), and **DUKE ENERGY CAROLINAS, LLC**, a North Carolina limited liability company (together with its successors and assigns, the "Borrower").

WITNESSETH:

in consideration of the respective representations and agreements herein contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions. Unless otherwise required by the context, all terms used herein shall have the meanings assigned to such terms in Section 101 of the Trust Agreement, dated as of October 1, 2007, between the Agency and Deutsche Bank National Trust Company, as Bond Trustee, either as originally executed or as amended or supplemented from time to time (the "Trust Agreement") or as set forth below:

"Act" means the Private Capital Facilities Finance Act, Article 2 of Chapter 159D of the General Statutes of North Carolina, as amended, or any successor statute.

"Agency" means the North Carolina Capital Facilities Finance Agency, a body corporate and politic and a public agency and an instrumentality of the State of North Carolina, and any successor thereto.

"Agency Representative" means each of the persons at the time designated to act on behalf of the Agency in a written certificate furnished to the Borrower and the Bond Trustee, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Agency by its Chairman, Vice Chairman, Secretary-Treasurer or Deputy Secretary-Treasurer.

"Agreement" means this Loan Agreement, including any amendments or supplements hereto as herein permitted.

"Bond Fund" means the fund created and so designated by Section 501 of the Trust Agreement.

"Bonds" means North Carolina Capital Facilities Finance Agency Solid Waste Disposal Revenue Bonds (Duke Energy Carolinas Project) Series 2007A authorized to be issued pursuant to a resolution of the Agency in the aggregate principal amount of \$50,000,000, including such Bonds issued in exchange for other such Bonds pursuant to Section 211 of the Trust Agreement,

or in replacement for mutilated, destroyed, lost or stolen Bonds pursuant to Section 212 of the Trust Agreement.

“Bond Trustee” means the Bond Trustee at the time serving as such under the Trust Agreement, whether original or successor.

“Bond Year” means the period commencing on October 1 of each year and ending on September 30 of the following year; provided, however, that the initial Bond Year shall commence on the Closing Date and end on September 30, 2008.

“Borrower Representative” means any Vice President, the Treasurer, Assistant Treasurer, Secretary and Assistant Secretary and each other person at the time designated to act on behalf of the Borrower in a written certificate furnished to the Bond Trustee, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Borrower by any Vice President or other designated officer.

“Cessation of Operation” means that the Borrower has ceased, in the opinion of the Agency, to operate the Project as a “solid waste disposal facility” within the meaning of the Act, provided that, a Cessation of Operation shall not be deemed to have occurred until 90 days shall have elapsed after written notice of such finding by the Agency has been given to the Borrower and the Bond Trustee by the Agency; provided, however, that, if the Borrower commences a contest, at its expense, of the finding of the Agency within the 90-day period described above, no Cessation of Operation will occur until such time as any such contest has been finally determined.

“Code” means the Internal Revenue Code of 1986, as amended.

“Completion Date” means the date of completion of the Project, as such date shall be certified pursuant to Section 4.05 hereof.

“Cost,” as applied to the Project, means, without intending thereby to limit or restrict any proper definition of such word under the Act, all items of cost set forth in Section 403 of the Trust Agreement.

“Event of Default” means with respect to this Agreement each of those events set forth in Section 6.01 of this Agreement.

“Fiscal Year” means the fiscal year of the Borrower, which period commences on January 1 of each year and ends on December 31 of the following year, unless the Bond Trustee and the Agency are notified in writing by the Borrower of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice.

“Holder” means Holder as defined in Section 101 of the Trust Agreement.

“Interest Account” means the account in the Bond Fund created and so designated by Section 501 of the Trust Agreement.

“Interest Payment Date” means Interest Payment Date as defined in Section 101 of the Trust Agreement.

“Loan” means the loan of the proceeds of the Bonds made by the Agency to the Borrower pursuant to Section 3.01 of this Agreement.

“Loan Repayments” means those payments designated by and set forth in Section 3.03 of this Agreement.

“Local Government Commission” means the Local Government Commission of North Carolina, a division of the Department of the State Treasurer, and any successor or successors thereto.

“Note” means the promissory note of the Borrower in substantially the form attached to this Agreement as Exhibit B, executed and delivered by the Borrower as consideration for the issuance of the Bonds and the making of the Loan.

“Officer’s Certificate” means a certificate signed by an Agency Representative or a Borrower Representative, as the case may be.

“Project” means the Project described in Exhibit A hereto, including any modifications thereof, substitutions therefore or additions thereto.

“Project Fund” means the fund created and so designated by Section 401 of the Trust Agreement.

“Required Payments under the Agreement” means the payments designated by and set forth in Section 3.04 of this Agreement.

“Remarketing Agent” means Remarketing Agent as defined in Section 101 of the Trust Agreement.

“State” means the State of North Carolina.

“Total Required Payments” means the sum of Loan Repayments and Required Payments under the Agreement.

“Trust Agreement” means the Trust Agreement securing the Bonds, dated as of October 1, 2007, between the Agency and Deutsche Bank National Trust Company, as trustee, including any trust agreement amendatory thereof or supplemental thereto.

Section 1.02 Rules of Construction. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, the words “Bond,” “owner,” “Holder” and “person” shall include the plural as well as the singular number and the word “person” shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

ARTICLE II

REPRESENTATIONS

Section 2.01 Representations by the Agency. The Agency represents that:

(a) The Agency was duly created and is validly existing under the laws of the State as a public agency and instrumentality of the State.

(b) Under the provisions of the Act, the Agency is duly authorized to enter into and to execute and deliver this Agreement and the Trust Agreement, to undertake the transactions contemplated by this Agreement and the Trust Agreement, and to carry out its obligations hereunder and thereunder.

(c) By duly adopted resolution, the Agency has duly authorized the execution and delivery of this Agreement and the Trust Agreement and the issuance, sale, execution and delivery of the Bonds.

(d) The Agency will lend the proceeds of the Bonds to the Borrower for the purpose of providing funds to (i) pay, and reimburse the Borrower for paying, a portion of the Cost of the Project and (ii) pay certain expenses incurred in connection with the authorization and issuance of the Bonds.

Section 2.02 Representations and Warranties of the Borrower. The Borrower represents that:

(a) The Borrower is a North Carolina limited liability company, is not in violation of any provisions of its organizational documents, has the authority to enter into this Agreement and has duly authorized the execution and delivery of this Agreement by proper corporate action.

(b) Neither the execution and delivery of this Agreement or the Note, the consummation of the transactions contemplated hereby nor the fulfillment of or compliance with the terms and conditions of this Agreement or the Note conflicts with or results in a breach of any material terms, conditions or provisions of any material restriction or any material agreement or instrument to which the Borrower is now a party or by which the Borrower is bound, or constitutes a default under any of the foregoing.

(c) There is no litigation or proceeding pending or, to the best of the knowledge of the Borrower, threatened against the Borrower or any other person materially adversely affecting in any manner whatsoever the right of the Borrower to execute this Agreement or the Note or the ability of the Borrower to make the payments required hereunder or to otherwise comply with the Borrower's obligations contained herein.

(d) The Borrower is a "participating institution" within the meaning of the Act. The Project is a "solid waste disposal facility" within the meaning of the Act.

ARTICLE III

THE LOAN

Section 3.01 Issuance of the Bonds to Fund Loan; Making of the Loan. Simultaneously with the delivery of this Agreement, the Agency shall issue and deliver the Bonds to provide it with funds to be loaned to the Borrower pursuant to this Agreement. The Bonds shall be issued in accordance with the Trust Agreement. The Borrower's approval of the terms of the Bonds and the Trust Agreement, including any obligations imposed on the Borrower by either of them, shall be conclusively established by its execution and delivery of this Agreement.

Upon the terms and conditions of this Agreement, the Agency hereby makes a loan to the Borrower in the principal amount of \$50,000,000, the same being the principal amount of the Bonds. The Loan shall be deemed to have been made when the proceeds of the sale of the Bonds are delivered to the Bond Trustee. The proceeds of the Loan shall be used, together with other available funds, to (i) pay, and reimburse the Borrower for paying, a portion of the Cost of the Project and (ii) pay certain expenses incurred in connection with the authorization and issuance of the Bonds. For the purposes of this Agreement, the amount of any underwriters' discount on the Bonds shall be deemed to have been loaned to the Borrower.

The Borrower hereby accepts the Loan and as evidence of its obligation to repay the same shall deliver to the Agency herewith the Note. The Borrower shall repay the Loan in accordance with the provisions of the Note and this Agreement. The Borrower acknowledges that the proceeds of the Loan will be delivered to the Bond Trustee and applied on behalf of the Borrower in accordance with this Agreement and the Trust Agreement.

Section 3.02 Total Required Payments. The Borrower shall make Total Required Payments under this Agreement when due.

The Borrower's obligation to make the Total Required Payments and to satisfy any other financial liabilities incurred under this Agreement shall be a direct, general and unconditional obligation of the Borrower.

The Borrower shall make Loan Repayments directly to the Bond Trustee for deposit in the Bond Fund or the Redemption Fund, as the case may be. Required Payments under the Agreement pursuant to Section 3.04 shall be made by the Borrower directly to the persons, firms, governmental agencies and other entities entitled to such payments.

Neither the Agency nor the Bond Trustee is required to give the Borrower notice of any date upon which any of the Total Required Payments is due. Nothing in this Section 3.02 shall require the Borrower to pay the costs and expenses set forth in Section 3.04, except the fees and expenses of the Agency to the extent provided below, so long as the validity of such costs or expenses, or the reasonableness thereof, shall be contested in good faith and the Borrower shall have delivered to the Bond Trustee an Opinion of Counsel acceptable to the Bond Trustee to the effect that such contest does not jeopardize the interests of the Agency, the Bond Trustee or the Holders; otherwise the Borrower shall pay such costs and expenses to the end that, in the opinion of such counsel, the interests of the Agency, the Bond Trustee or the Holders are not jeopardized.

If the Opinion of Counsel mentioned in the preceding sentence is not acceptable, the Bond Trustee shall so notify the Agency and the Borrower within five days of its receipt thereof, after which a subsequent Opinion of Counsel may be furnished. If the content of such subsequent Opinion of Counsel is not acceptable to the Bond Trustee, the Borrower shall pay such costs and expenses. Notwithstanding anything in this paragraph to the contrary, the Borrower agrees that it will continue to pay such fees and expenses of the Agency pending the resolution of any contest with respect to the validity or the reasonableness thereof.

If, after giving effect to the credits specified in Section 502 of the Trust Agreement, any installment of Total Required Payments should be insufficient to enable the Bond Trustee to make the deposits specified in Section 502 of the Trust Agreement, the Borrower shall increase each future installment of the Total Required Payments as may be necessary to make up any previous deficiency.

All of the Total Required Payments shall be made in any coin or currency of the United States of America that is legal tender for the payment of public and private debts at the time each of the Total Required Payments is made.

Section 3.03 Loan Repayments. The Borrower shall repay the Loan in installments as provided in this Agreement. Each installment shall be deemed to be a Loan Repayment and shall be paid at the times and in the amounts set forth below. Loan Repayments shall be sufficient in the aggregate to repay the Loan, together with interest thereon and to pay in full, when due (whether by maturity, redemption, acceleration or otherwise), all Bonds, together with the total interest thereon. The obligation of the Borrower to make any payment hereunder shall be deemed satisfied and discharged to the extent of the corresponding payment made by the Bank under the Credit Facility.

The Loan Repayments shall be due and payable as follows:

(a) while the Bonds bear interest at a Daily Interest Rate, a Weekly Interest Rate, an Auction Period Rate or Bond Interest Term Rate, on each Interest Payment Date, and while the Bonds bear interest at a Long-Term Interest Rate, on the 25th day of the month preceding each Interest Payment Date, to the Bond Trustee, for deposit to the credit of the Interest Account, an amount equal to the interest due on the Outstanding Bonds on such Interest Payment Date, less any applicable credit under Section 502 of the Trust Agreement; provided, however, that if the interest rate on the Bonds is subject to adjustment pursuant to Section 205 of the Trust Agreement after the date of such required deposit, interest on the Bonds accruing from such adjustment date shall be assumed to accrue at the Ceiling Rate; and provided further, however, that if a Credit Facility is in effect, no payment shall be due under this paragraph until such Interest Payment Date;

(b) on November 1, 2040, to the Bond Trustee for deposit in the Principal Account, the amount required to be paid at maturity of the Bonds on such November 1, 2040;

(c) to the Bond Trustee, for deposit in the Interest Account, on or before the date(s) payment thereof is required to be made by the Bond Trustee, any amounts that may from time to time be required to enable the Bond Trustee to pay the accrued interest on Bonds purchased or

redeemed from money in the Redemption Fund in accordance with Section 505 of the Trust Agreement; and

(d) to the Bond Trustee, for deposit in the Redemption Fund, on or before the date(s) payment thereof is required to be made by the Bond Trustee, any amount that may, from time to time, be required to enable the Bond Trustee to pay principal of the Bonds and any redemption premiums as and when Bonds are called for redemption.

Each Loan Repayment as set forth in this Section 3.03 shall be equal to the sum of the amounts specified above in paragraphs (a) to (d), inclusive.

On the Interest Payment Date following a date on which the Borrower shall have failed to pay to the Bond Trustee the amount due as a Loan Repayment or on which an investment loss shall have been charged to the Bond Fund or any account therein in accordance with Section 602 of the Trust Agreement, the Borrower shall pay, in addition to the Loan Repayment then due, an amount equal to the deficiency in payment or the amount of such loss. To the extent that the investment earnings are transferred or credited to the Bond Fund or any account therein in accordance with Articles V or VI of the Trust Agreement or amounts are transferred or credited to such Fund or accounts as a result of the application of Bond proceeds or a transfer of surplus funds from the Project Fund or otherwise, future Loan Repayments shall be proportionately reduced by the amount so credited unless such transfer is made to cure deficiencies in the fund or account to which the transfer is made.

The Borrower may prepay all or any part of the Loan at the times and in the manner provided in Article VII of this Agreement.

Section 3.04 Required Payments under the Agreement.

(a) The Borrower shall also pay, when due and payable, as Required Payments under the Agreement, certain costs and expenses, exclusive of costs and expenses payable from the proceeds of the Bonds and investment earnings thereon, as follows:

(i) to the Tender Agent, such amounts as shall be necessary to enable the Tender Agent to pay the purchase price of any Bonds tendered or deemed tendered for purchase on the date such Bonds are required to be purchased; provided, however, that the obligation of the Borrower to make any payment of purchase price of any Bonds tendered or deemed tendered for purchase shall be deemed to be satisfied and discharged to the extent of any moneys described in clauses (i) and (ii) of Section 1303(b) of the Trust Agreement that are furnished to the Tender Agent;

(ii) the fees and other costs payable to the Bond Trustee, the Tender Agent, the Remarketing Agent, the Auction Agent and the Broker-Dealers;

(iii) all costs incurred in connection with the purchase or redemption of Bonds to the extent money is not otherwise available therefor;

(iv) the fees and other costs incurred for services of such attorneys, management consultants, insurance consultants and accountants as are employed to make

examinations, provide services, render opinions or prepare reports required under this Agreement, the Remarketing Agreement, the Trust Agreement, the Auction Agreement, the Tender Agreement, a Liquidity Facility, a Credit Facility Provider Agreement or each Broker-Dealer Agreement;

(v) all costs incurred by the or the Bond Trustee in connection with the discontinuation of or withdrawal from any book-entry system for the Bonds or any transfer from one book-entry system to another including, without limitation, the printing and issuance of additional or substitute Bonds in connection with such withdrawal, discontinuance or transfer;

(vi) reasonable fees and other costs incurred by the Agency in connection with its administration and enforcement and compliance with this Agreement or the Trust Agreement, including, but not limited to, the administration fee presently imposed by the Agency, and reasonable attorneys' fees;

(vii) fees and other costs incurred in connection with the remarketing of the Bonds;

(viii) the fees and other costs payable to the Bond Insurer; and

(ix) all amounts required to be paid to the Tender Agent pursuant to Section 205(a)(ii) of the Trust Agreement on the date of remarketing of Bank Bonds.

The Required Payments under the Agreement as set forth in this Section 3.04(a), if any, shall be equal to the sum of the amounts specified in clauses (i) to (ix), inclusive.

Provisions referring to reasonable fees and compensation shall not necessarily mean statutory fees and compensation, but shall mean whatever is reasonable under the given circumstances.

(b) The Borrower shall also cause to be paid the Rebate Requirement (as defined in the Tax Certificate) to the United States Government. The Borrower further agrees to pay all costs incurred by the Agency in connection with the filing of Form 8038-T with respect to the Bonds. The obligation of the Borrower to make such payment shall survive the termination of this Agreement.

Section 3.05 Loan Payments as Trust Funds. All Loan Payments shall be and constitute trust funds, whether held by the Bond Trustee or any bank or trust company designated for such purpose, and shall continue to be impressed with a trust until such money is applied in the manner provided in the Trust Agreement.

The Borrower may at any time give to the Bond Trustee written or oral directions respecting the investment of any money held in any of the funds or accounts established under the Trust Agreement, subject, however, to the provisions of Article VI of the Trust Agreement. The Bond Trustee may request, orally or in writing, direction or authorization of the Borrower with respect to the proposed investment of money under the provisions of the Trust Agreement. Upon receipt of such request, accompanied by a memorandum setting forth the details of any

proposed investment, the Borrower shall either approve such proposed investment or shall give written or oral directions to the Bond Trustee respecting the investment of such money.

Section 3.06 No Set-Off. The obligation of the Borrower to make the Loan Repayments, all Required Payments under the Agreement and all payments under the Note and to perform and observe the other agreements contained in this Agreement shall be absolute and unconditional. The Borrower will pay without abatement, diminution or deduction (whether for taxes or otherwise) all such amounts regardless of any cause or circumstance whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim that the Borrower may have or assert against the Agency or the Bond Trustee or any other person.

Section 3.07 Pledge and Assignment to Bond Trustee. Simultaneously with the delivery of this Agreement, the Agency shall pledge and assign to the Bond Trustee as security for the Bonds all of the Agency's right, title and interest in and to the Note and this Agreement (except for those certain rights under this Agreement that are set forth in the granting clauses of the Trust Agreement). The Borrower hereby consents to such pledge and assignment and agrees that the Bond Trustee may enforce any and all rights, privileges and remedies of the Agency under or with respect to the Note and this Agreement, including those rights reserved by the Agency.

ARTICLE IV

COVENANTS RESPECTING THE PROJECT

Section 4.01 Acquisition and Construction. The Borrower shall acquire, construct and equip, or cause to be acquired, constructed or equipped, the Project with all reasonable dispatch.

Section 4.02 Insurance. The Borrower covenants that it will maintain or cause to be maintained insurance on the Project of such type, against such risks and in such amounts, with insurance companies, captive insurance companies or by means of self-insurance, as are customarily carried by facilities of a nature similar to that of the Project, which insurance shall include property damage, fire and extended coverage, public liability, and property damage liability insurance.

Section 4.03 Operation of the Project. The Borrower agrees, for so long as the Bonds are Outstanding, to operate the Project as a "special purpose project" as defined in the Act, to serve and benefit the public and, in the operation of the Project, not to discriminate against any person based on race, creed, color or national origin, all within the meaning of the Act.

Section 4.04 Revision of Project. The Borrower may revise the description of the Project in Exhibit A hereto from time to time; provided, however, that after such revision the Project shall constitute a "Project" within the meaning of the Act. In the case of any change that would render materially inaccurate the description of the Project in Exhibit A hereto, there shall be delivered to the Bond Trustee a revised Exhibit A containing a description of the Project that

reflects such change, the accuracy of which shall have been certified by the Borrower Representative.

Section 4.05 Disbursements from Project Fund. The money in the Project Fund shall be applied by the Bond Trustee, upon receipt of a requisition of the Borrower signed by a Borrower Representative, to the payment of the Cost of the Project in accordance with Article IV of the Trust Agreement, and pending such application such money shall be invested and reinvested in accordance with Article VI of the Trust Agreement.

Section 4.06 Sale or Other Disposition of the Project. The Borrower agrees that any amounts received by it constituting (i) proceeds from the sale or other disposition of all or any part of the Project, (ii) insurance proceeds with respect to any casualty loss to all or any part of the Project or (iii) condemnation awards or payments in lieu thereof relating to all or any part of the Project shall be used to make (A) capital expenditures constituting a "project" under the Act, (B) other expenditures approved by the Agency or (C) to prepay the Note in accordance with its terms.

Section 4.07 Completion of Payment of the Cost of the Project. The Borrower shall complete the Project and pay that portion of the Cost of completing the Project as may be in excess of the money available therefor under the Trust Agreement.

Upon request of the Borrower, the Agency will use its best efforts to issue, and will request the Local Government Commission to sell, upon prices and terms acceptable to the Agency, the Local Government Commission and the Borrower, one or more series of bonds for the purpose of financing the Cost of completing the Project; provided, however, that the failure of the Agency to issue, and of the Local Government Commission to sell, such bonds shall not relieve the Borrower of its obligation to provide the additional money required to pay the Cost of completing the Project. If, after exhaustion of the money in the Project Fund, the Borrower should pay any portion of the Cost of the Project, the Borrower shall not be entitled to any reimbursement therefor from the Agency or from the Bond Trustee, and shall not be entitled to any abatement, diminution or postponement of Total Required Payments.

Section 4.08 Establishment of Completion Date. The completion date for the Project shall be evidenced to the Bond Trustee and the Agency by a certificate signed by a Borrower Representative (1) setting forth the Cost of the Project and stating that, except for amounts not then due and payable, or the liability for the payment of which is being contested or disputed in good faith by the Borrower, the acquisition, construction and equipping of the Project have been completed and the Cost of the Project has been paid or provision for such payment shall have been made by a surety bond or irrevocable bank letter of credit adequately securing such payment, (2) stating that it is given without prejudice to any rights against third parties that exist at the date of such certificate or which may subsequently come into being, and (3) specifying whether the Borrower met one of the spending exceptions to the Rebate Requirement (as defined in the Tax Certificate); provided, however, if the Project is not completed by May 31, 2009, the Borrower shall notify the Agency in writing as to the status of the foregoing.

Section 4.09 No Warranty of Condition or Suitability. The Borrower acknowledges its full familiarity with the Project and that the Agency has no responsibility for

the Project Documents. The Agency makes no representation or warranty, either express or implied, and offers no assurance that the proceeds of the Bonds will be sufficient to pay in full the Cost of the Project in accordance with the Project Documents or that the Project will be suitable for its intended purpose.

ARTICLE V

SPECIAL COVENANTS

Section 5.01 Further Assurances and Corrective Instruments. Subject to the provisions of Article XI of the Trust Agreement, the Agency and the Borrower agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements and amendments hereto and such further instruments as may reasonably be required for carrying out the intention or facilitating the performance of this Agreement. The Borrower agrees to observe and comply with the terms of the Trust Agreement applicable to the Borrower.

Section 5.02 Maintenance of Existence/Transfers of Assets. The Borrower shall maintain its existence as a corporation or limited liability company qualified to do business in North Carolina and shall not dissolve or dispose of all or substantially all of its assets, unless (a) the Borrower shall receive, as consideration for such disposition, services or property equal to the fair market value of such assets or (b) the transferee legal entity shall assume in writing the obligations of the Borrower under this Agreement, in which event the Agency and the Bond Trustee shall release the Borrower in writing, concurrently with and contingent upon such assumption, from all liability hereunder.

Section 5.03 Arbitrage. The Agency and the Borrower shall proceed with due diligence to spend the proceeds of the Bonds to pay the Cost of the Project. The Agency and the Borrower shall not take any action or fail to take action, and shall not approve any action or failure to take action on the part of, or the making of any investment or use of the proceeds of the Bonds by, the Bond Trustee that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the regulations thereunder as such may be applicable to the Bonds at the time of such action, investment or use.

Section 5.04 Tax Exemption Covenant. The Borrower covenants that it will not take any action which will, or fail to take any action which failure will, cause interest on the Bonds to become includable in the gross income of the Holders for federal income tax purposes pursuant to the provisions of the Code and regulations promulgated thereunder. The Borrower will comply with its obligations as provided in the Tax Agreement.

Section 5.05 Secondary Market Disclosure. The Borrower hereby undertakes, for the benefit of the Beneficial Owners of the Bonds, to provide:

(a) by not later than seven months from the end of each Fiscal Year, beginning with the Fiscal Year ending December 31, 2007, to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State of North Carolina ("SID"), if any, the audited financial statements of the Borrower for such Fiscal

Year, if available, or, if such audited financial statements are not available by seven months from the end of such Fiscal Year, the unaudited financial statements for such Fiscal Year to be replaced subsequently by the audited financial statements to be delivered within 15 days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each Fiscal Year, beginning with the Fiscal Year ending December 31, 2007, to each NRMSIR, and to the SID, if any, the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information included in Appendix A to the Official Statement, dated November 1, 2007 (the "Official Statement"), to the extent such items are not included in the audited financial statements referred to in (a) above;

(c) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB"), and to the SID, if any, notice of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties;
- (5) substitution of any credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) modification of the rights of the Beneficial Owners of the Bonds;
- (8) Bond calls;
- (9) defeasances;
- (10) release, substitution or sale of any property securing repayment of the Bonds; and
- (11) rating changes; and

(d) in a timely manner, to each NRMSIR or to the MSRB, and to the SID, if any, notice of a failure of the Borrower to provide required annual financial information described in (a) or (b) above on or before the date specified.

To the extent permitted by the SEC, the Borrower may discharge its undertaking described above by transmitting the applicable documents or notices electronically to www.DisclosureUSA.org.

If the Borrower fails to comply with the undertaking described above, the Bond Trustee or any Beneficial Owner of the Bonds then Outstanding may take action to protect and enforce the rights of all Beneficial Owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking shall not be an event of default under this Agreement and shall not result in any acceleration of payment of the Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all Beneficial Owners of the Bonds.

The Borrower reserves the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Borrower, provided that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, composition, nature, or status of the Borrower;

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 ("Rule 15c2-12") as of the date of the Official Statement with respect to the Bonds, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the Beneficial Owners, as determined either by parties unaffiliated with the Borrower (such as bond counsel), or by approving vote of the registered owners of not less than a majority in principal amount of the Bonds then Outstanding pursuant to the terms of the Trust Agreement, as it may be amended from time to time.

The Borrower must explain any financial information containing modified operating data or financial information, in narrative form, the reasons for the amendments and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above shall terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on the Bonds.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

Section 6.01 Events of Default Defined. The term "Event of Default" shall mean any one or more of the following events:

(a) The Borrower shall fail to pay, or cause to be paid, in full any payment required under the Note or this Agreement when due, whether at maturity, prepayment, acceleration or otherwise pursuant to the terms hereof or thereof; or

(b) The Borrower shall fail duly to perform, observe or comply with any covenant, condition or agreement on its part under this Agreement (other than a failure to make any payment under subsection (a) of this Section 6.01), and such failure continues for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Borrower by the Bond Trustee or the Bond Insurer, provided, however, that if such performance, observation or compliance requires work to be done, action to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the Borrower shall commence such performance, observation or compliance within such period and shall diligently and continuously prosecute the same to completion; or

(c) An event of default shall occur under the Trust Agreement; or

(d) The entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Borrower in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or (ii) a decree or order adjudging the Borrower a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Borrower under any applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Borrower or of any substantial part of its property, or ordering the winding-up or liquidation of its affairs, and the continuance of any decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(e) The commencement by the Borrower of a voluntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Borrower in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable federal or state law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Borrower or of any substantial part of its property, or the making by it of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Borrower or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the authorization of any such action by the Borrower's Board of Directors.

Section 6.02 Acceleration. Whenever an Event of Default shall have occurred and be continuing, the Agency, by written notice to the Borrower may, and upon the direction of the

Bond Insurer, shall, declare the entire outstanding principal balance of the Note, together with all interest accrued thereon to the date of such acceleration, to be immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable.

Section 6.03 Remedies on Default. Whenever any Event of Default hereunder shall have happened and be continuing, the Agency may, and upon the direction of the Bond Insurer, shall, take whatever action at law or in equity is necessary or desirable to collect the payments then due under the Note or the Agreement or to enforce the performance, observance or compliance by the Borrower with any covenant, condition or agreement by the Borrower under this Agreement.

Section 6.04 Application of Amounts Realized in Enforcement of Remedies. Any amounts collected pursuant to action taken under Section 6.03 hereof shall be paid to the Bond Trustee for application in accordance with the provisions of the Trust Agreement, or, if payment of the Bonds shall have been made, shall be applied according to the provisions of Section 10.04 hereof.

Section 6.05 No Remedy Exclusive. No remedy herein conferred upon or reserved to the Agency is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 6.06 Agreement to Pay Attorneys' Fees and Expenses. In any Event of Default, if the Agency or the Bond Trustee employs attorneys or incurs other expenses for the collection of amounts payable hereunder or the enforcement of the performance or observance of any covenants or agreements on the part of the Borrower herein contained, whether or not suit is commenced, the Borrower agrees that it will on demand therefor pay to the Agency or the Bond Trustee the reasonable fees of such attorneys (as limited by this Agreement) and such other reasonable expenses so incurred by the Agency or the Bond Trustee.

Section 6.07 Agency and Borrower to Give Notice of Default. The Agency and the Borrower severally covenant that they will, at the expense of the Borrower, promptly give to the Bond Trustee written notice of any Event of Default under this Agreement of which they shall have actual knowledge or written notice, but the Agency shall not be liable for failing to give such notice. The Borrower covenants that it will promptly give to Agency written notice of any Event of Default of which it has actual knowledge or written notice.

Section 6.08 Correlative Waivers. If an event of default under Section 801 of the Trust Agreement shall be cured or waived and any remedial action by the Bond Trustee rescinded, any correlative default under this Agreement shall, *ipso facto*, be deemed to have been cured or waived, and any remedial action taken by the Agency or the Bond Trustee hereunder as a result thereof shall be rescinded.

ARTICLE VII

PREPAYMENTS

Section 7.01 Optional Prepayment.

(a) The Borrower shall have the option to prepay, together with accrued interest, all or any portion of the unpaid aggregate amount of the Loan in accordance with the terms and provisions of the Trust Agreement. Said prepayment shall be made by the Borrower taking, or causing the Agency to take, the actions required (i) for payment of the Bonds, whether by redemption or purchase prior to maturity or by payment at maturity, or (ii) to effect the purchase, redemption or payment at maturity of less than all of the Bonds according to their terms, or (iii) in order that all or any part of the Bonds shall be deemed not to be Outstanding as described in paragraph (2) of the definition of "Outstanding" in Article 101 of the Trust Agreement.

(b) To make a prepayment pursuant to this Section 7.01, the Borrower shall give written notice to the Agency and the Bond Trustee which shall specify therein (i) the date of the intended prepayment of the Loan, which shall not be less than 35 nor more than 60 days from the date the notice is mailed, and (ii) the aggregate principal amount of the Bonds to be purchased, redeemed or paid at maturity and the date or dates on which the purchase, redemption or payment is to occur.

Section 7.02 Extraordinary Prepayment. The Borrower shall have the option to prepay (a) in whole or in part, from amounts received by the Borrower from a draw on the Credit Facility representing insurance proceeds with respect to any casualty loss or failure of title or condemnation awards, upon damage to or destruction of all or any part of the Project constituting land, buildings or equipment by fire or casualty or loss of title to or use of all or any part of the Project as a result of the failure of title or as a result of eminent domain proceedings or proceedings in lieu thereof (if such damage, destruction, loss of title or loss of use causes such Project to be impracticable to operate for a period of at least six months); (b) in whole, upon changes in the Constitution of the United States of America or of the State of North Carolina or of legislative or administrative action, or failure of administrative action by the United States or the State of North Carolina or any agency or political subdivision of either, or by reason of any judicial decision to such extent that, in the opinion of the board of directors of the Borrower and an independent management consultant, (i) the Agreement is impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities not being imposed as of the date of the Agreement are imposed on the Borrower; or (c) in whole, in the event changes, which the Borrower cannot reasonably control, in the economic availability of materials, supplies, labor, equipment, or other properties or things necessary for the efficient operation of the Project shall have occurred, which in the judgment of the Borrower, render the continued operation of the Project uneconomical; or changes in circumstances, after issuance of the Bonds, including but not limited to changes in solid waste abatement, control and disposal requirements, shall have occurred such that the Borrower shall determine use of the Project is no longer required or desirable.

This Section 7.02 shall not be construed to prohibit the Borrower from applying insurance proceeds with respect to any casualty loss or condemnation awards or payments in lieu

thereof in any manner permitted by Section 5.06 hereof, including to the optional prepayment of the Loan in accordance with the provisions of Section 7.01 of this Agreement.

Section 7.03 Mandatory Prepayment upon a Cessation of Operation. The Borrower shall be required to prepay all of the unpaid aggregate amount of the Loan, together with accrued interest to the date of prepayment, upon a Cessation of Operation.

Section 7.04 Notice and Right of Revocation.

(a) To make a prepayment pursuant to Section 7.01, 7.02 or 7.03, the Borrower shall give written notice to the Agency and the Bond Trustee which shall specify therein (i) the date of the intended prepayment of the Loan, which shall be not less than thirty-five (35) days nor more than sixty (60) days from the date the notice is mailed, (ii) the aggregate principal amount of the Bonds to be purchased, redeemed or paid at maturity and the date or dates on which such purchase, redemption or payment is to occur, and which shall include such certificates or opinions as are required by paragraphs (a) or (b) of Section 7.02 and (iii) the maturity or maturities of the Bonds to be purchased, redeemed or paid.

(b) The Borrower shall have the right to condition any notice of prepayment pursuant to Section 7.01 or Section 7.02 that is given pursuant to this Section 7.04 in the same manner provided for redemption notices in Section 303(b) of the Trust Agreement. If a Conditional Redemption does not occur for either of the reasons permitted under Section 303(b) of the Trust Agreement, the corresponding notice of prepayment given pursuant to this Section 7.04 shall be deemed to be revoked.

ARTICLE VIII

INDEMNIFICATION AND NON-LIABILITY OF THE AGENCY, THE BOND TRUSTEE AND THE LOCAL GOVERNMENT COMMISSION

Section 8.01 General. The Borrower releases the Agency, the Local Government Commission, the Bond Trustee and their respective directors, members, officers, agents, and employees as such, past, present and future (collectively "officials and employees"), from, agrees that the Agency, the Local Government Commission, the Bond Trustee and their respective officials and employees will not be liable for, and agrees that it will at all times indemnify and hold harmless the Agency, the Local Government Commission, the Bond Trustee and their respective officials and employees against and pay all reasonable expenses of the Agency, the Local Government Commission, the Bond Trustee and their respective officials and employees relating to, claims made against the Agency, the Local Government Commission or the Bond Trustee or any official or employee of the Agency, the Local Government Commission or the Bond Trustee or resulting from, arising out of or in connection with (a) loss or damage to property or death or injury to any person, arising during the term of this Agreement that may be occasioned by any cause pertaining to the construction or use by the Borrower of the Project, and any liabilities or losses resulting from violations by the Borrower of conditions, agreements, and requirements of law affecting the Project or the ownership, occupancy or use thereof; (b) any breach or default on the part of the Borrower in the performance of any covenant or agreement of

the Borrower under this Agreement, or arising from any act or failure to act by the Borrower or any of its agents, contractors, servants, employees or licensees; (c) the authorization, issuance and sale of the Bonds, or the execution and performance by the Borrower or the enforcement against the Borrower, the Agency, the Local Government Commission, the Bond Trustee or their respective employees and officials of this Agreement or the Indenture (unless as a result of the gross negligence or willful misconduct of the Agency, the Local Government Commission and their respective officials and employees or, with respect to the Bond Trustee, as a result of the negligence or willful misconduct of the Bond Trustee or its respective officials and employees); (d) the provision of any information or certification by the Borrower furnished in connection therewith concerning the Bonds, the Project or the Borrower (including, without limitation, any information furnished by the Borrower) for inclusion in, or as a basis for preparation of, any material used in connection with the sale of the Bonds, including without limitation, the Tax Certificate, to assure the exclusion of the interest on the Bonds from the gross income of the holders for federal income tax purposes; or (e) any claim, action or proceeding brought against the Agency, the Local Government Commission, the Bond Trustee or their respective directors, officers or employees with respect to any matter set forth in clause (a), (b), (c) or (d) above.

In case any action shall be brought against the Agency, the Local Government Commission or the Bond Trustee in respect of which indemnity may be sought against the Borrower, then the Agency, the Local Government Commission or the Borrower, as the case may be, shall promptly notify the Borrower in writing. Failure to notify the Borrower shall not relieve it from any liability that it may have other than on account of this Agreement. The Borrower shall have the right to assume the investigation and defense of such action, including the employment of counsel, which counsel shall be satisfactory to the indemnified parties, and the payment of all expenses. The Agency and the Local Government Commission shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, and the reasonable fees and expenses (as limited by this Agreement) of such counsel shall be paid by the Borrower. The Bond Trustee shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by the Bond Trustee unless the employment of such counsel has been authorized by the Borrower or the Bond Trustee has reasonably objected to a joint defense by the Borrower on the ground that there may be legal defenses available to it that are different from or in addition to those available to the Borrower, in which case the Bond Trustee shall have the right to designate and retain separate counsel in such action and the reasonable fees and expenses of such counsel shall be paid by the Borrower. If no reasonable objection is made and the Borrower assumes the defense of such action, the Borrower shall not be liable for the fees and expenses of any counsel for the Bond Trustee incurred thereafter in connection with such action. In no event shall the Borrower be liable for the fees and expenses of more than one counsel for the Bond Trustee in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, unless the retaining of additional counsel has been specifically authorized by the Borrower. Provisions referring to reasonable fees and compensation shall not necessarily mean statutory fees and compensation, but shall mean what is reasonable under the given circumstances.

The Agency, the Local Government Commission or the Bond Trustee, as the case may be, shall reimburse the Borrower for payments made by the Borrower pursuant to this

Section 8.01 to the extent of any proceeds, net of all expenses of collection, actually received by the Agency, the Local Government Commission or the Bond Trustee from any insurance covering such claims with respect to the losses sustained. The Agency, the Local Government Commission and the Bond Trustee shall have the duty to claim any such insurance proceeds and the Agency, the Local Government Commission and the Bond Trustee shall assign their respective rights to such proceeds, to the extent of such required reimbursement, to the Borrower.

Notwithstanding anything in this Section 8.01 to the contrary, the Borrower shall not be liable for any losses or claims of the Bond Trustee resulting from the negligent act of or negligent failure to take action by the Bond Trustee.

Section 8.02 Payment of Costs upon Default. The Borrower shall pay, and shall indemnify the Agency, the Local Government Commission and the Bond Trustee against, all costs and charges, including reasonable counsel fees (as limited by this Agreement), lawfully and reasonably incurred in enforcing any covenant or agreement of the Borrower contained in this Agreement.

ARTICLE IX

TERMINATION OF AGREEMENT

Section 9.01 Termination of Agreement. When the Bond Trustee certifies to the Agency that all Bonds have been paid or defeased in accordance with Section 1201 of the Trust Agreement and that all other obligations incurred by the Agency and the Borrower under the Trust Agreement, this Agreement and the Note have been paid or that sufficient money or Defeasance Obligations, for such payment are held in trust by the Bond Trustee for such purposes, this Agreement shall terminate and the Bond Trustee shall contemporaneously cancel the Note and shall deliver the same to the Borrower.

ARTICLE X

MISCELLANEOUS

Section 10.01 Members, Trustees, Officers and Employees of the Agency, Borrower and Local Government Commission Not Liable. Neither the members, officers and employees of the Agency or the Local Government Commission nor the members of the Board of Directors or the officers and employees of the Borrower shall be personally liable for any costs, losses, damages or liabilities caused or subsequently incurred by the Borrower or any officer, director or agent thereof in connection with or as a result of this Agreement.

Section 10.02 Amendment of Agreement. The Agency and the Borrower may from time to time and at any time enter into agreements supplemental hereto, without the consent of or notice to any Holder, to effect any one or more of the following:

(a) cure any ambiguity or defect or omission or correct or supplement any provision herein or any supplemental agreement hereto; or

(b) grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Bond Trustee, which are not contrary to or inconsistent with this Agreement or the Trust Agreement as then in effect; or

(c) add to the provisions of this Agreement other conditions, limitations and restrictions on the Borrower to be observed thereafter which are not contrary to or inconsistent with this Agreement or the Trust Agreement as then in effect; or

(d) make any other change that is determined by the Bond Trustee, who may rely upon an Opinion of Counsel, to be not materially adverse to the interest of the Holders.

Other than amendments referred to in the preceding paragraph of this Section and subject to the terms and provisions and limitations contained in Section 1102 of the Trust Agreement and not otherwise, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by the Borrower and the Agency of such supplements and amendments hereto as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein; provided, however, nothing in this Section shall permit or be construed as permitting a supplement or amendment which would:

(i) Extend the stated maturity of or time for paying interest on the Note or reduce the principal amount of or rate of interest payable on the Note without the consent of the Holders of all Bonds then outstanding; or

(ii) Reduce the aggregate principal amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such supplement or amendment without the consent of the Holders of all Bonds then Outstanding.

Section 10.03 Redemption of Bonds. Upon the request of the Borrower made in accordance with this Agreement, the Agency shall take all steps that may be proper and necessary under the applicable redemption provisions of the Trust Agreement to effect the redemption of all or part of the then outstanding Bonds in such principal amount and on such redemption date as the Borrower shall direct. All expenses of such redemption shall be paid from money in the hands of the Bond Trustee or by the Borrower and not from funds of the Agency.

Section 10.04 Surplus Funds. When all Bonds shall have been redeemed or retired and the Note and all other obligations incurred or to be incurred by the Agency and the Bond Trustee under the Trust Agreement or this Agreement shall have been paid, or sufficient funds or Defeasance Obligations, or a combination of both, shall be held in trust pursuant to the Trust Agreement for the payment of all such obligations, any surplus funds remaining to the credit of any fund or account established under the Trust Agreement for the security of the Bonds shall be paid to the Borrower as an overpayment of the Total Required Payments.

Section 10.05 Limitation on the Agency's Liability. All obligations of the Agency under this Agreement shall be payable solely from the Total Required Payments and other revenues received and to be received from the Borrower. Neither the members, officers nor employees of the Agency shall be personally liable for the payment of any sum or for the performance of any obligation under this Agreement.

Section 10.06 Borrower's Remedies. In the event the Agency should fail to perform any of its obligations under this Agreement, the Borrower may institute such action against the Agency as the Borrower may deem necessary to compel performance; provided, however, that no such action shall seek to impose, or impose, any pecuniary liability upon the Agency, or any personal or pecuniary liability upon any member, officer or employee thereof, except in the case of willful misconduct.

Section 10.07 Consents and Approvals. Whenever the written consent or approval of the Agency, the Borrower, or the Bond Trustee shall be required under the provisions of this Agreement, such consent or approval shall not be unreasonably withheld or delayed. Unless otherwise specified herein, consents of the Agency shall be executed and delivered on behalf of the Agency by the Agency Representative and consents of the Borrower shall be executed and delivered on behalf of the Borrower by the Borrower Representative.

Section 10.08 Extent of Covenants. All covenants, stipulations, obligations and agreements of the Agency and the Borrower contained in this Agreement shall be effective to the extent authorized and permitted by applicable law.

Section 10.09 Notices; Demands, Requests. All notices, demands and requests to be given to or made hereunder by the Borrower, the Agency, the Local Government Commission or the Bond Trustee shall be given or made in writing and shall be deemed to be properly given or made if sent by United States registered mail, return receipt requested, postage prepaid, addressed as follows:

(a) As to the Borrower--

Duke Energy Carolinas, LLC
526 South Church Street – EC04Z
Charlotte, North Carolina 28202
Attention: Treasurer
Telephone: (704) 382-7649
Facsimile: (980) 373-3699
Electronic: lynn.good@duke-energy.com

With a copy to:

Stephen M. Trabucco
Same address, phone and fax as above
Electronic: smtrabucco@duke-energy.com

(b) As to the Agency--

North Carolina Capital Facilities Finance Agency
c/o Department of the Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385
Attention: Secretary-Treasurer
Telephone: (919) 807-2360
Facsimile: (919) 807-2377
Electronic: ken.durham@nctreasurer.com

(c) As to the Bond Trustee—

Deutsche Bank National Trust Company
DB Trust & Securities Services
222 South Riverside Plaza, 25th Floor
Chicago, Illinois 60606
Telephone: (312) 537-1159
Facsimile: (312) 537-1009
Electronic: george.kubin@db.com

(d) As to the Local Government Commission--

Local Government Commission of North Carolina
325 North Salisbury Street
Raleigh, North Carolina 27603-1385
Attention: Secretary
Telephone: (919) 807-2360
Facsimile: (919) 807-2377
Electronic: ken.durham@nctreasurer.com

(e) As to Moody's--

Moody's Investors Service, Inc.
Fully Supported Team
99 Church Street
New York, New York 10007

(f) As to S&P--

Standard & Poor's Ratings Services
Structured Finance/LOC 40th Floor
55 Water Street
New York, New York 10041-0003

(g) As to Fitch--

Fitch Ratings
Municipal Structured Finance
One State Street Plaza
New York, New York 10004

Any such notice, demand or request may also be transmitted to the appropriate above-mentioned party by telephone, facsimile or other electronic transmission and shall be deemed to be properly given or made at the time of such transmission if, and only if, such transmission of notice shall be confirmed in writing and sent as specified above.

Any of such addresses or other information set forth above may be changed at any time upon written notice of such change sent by United States registered mail, postage prepaid, to the other parties by the party effecting the change.

Section 10.10 Multiple Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original constituting but one and the same instrument.

Section 10.11 Severability. If any one or more of the covenants, agreements or provisions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, the invalidity of such covenants, agreements and provisions shall in no way affect the validity or effectiveness of the remainder of this Agreement, and this Agreement shall continue in force to the fullest extent permitted by law.

Section 10.12 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State.

Section 10.13 Effective Date of This Agreement. Notwithstanding that this Agreement is dated as of the 1st day of October, 2007, this Agreement shall take effect when it is fully executed and has been delivered to the parties hereto contemporaneously with the delivery of and payment for the Bonds, and none of the Total Required Payments shall be payable prior to or for any period prior to the effective date of this Agreement.

Section 10.14 Time; Days Other than Business Days. (a) All references to times herein shall refer to New York City time.

(b) Any action required to be taken hereunder on a day other than a Business Day shall be deemed to be timely if such action is taken on the next succeeding Business Day.

Section 10.15 Notice of Amendment of Agreement. The Borrower shall provide notice to Moody's and S&P of any supplements or amendments to this Agreement made pursuant to Section 10.02 above.

Section 10.16 Confidential Information. Nothing contained in this Agreement will require the Borrower to disclose or permit the Agency, the Bond Trustee or others to acquire any

access to trade secrets of the Borrower or any other confidential processes, techniques or information.

Section 10.17 Provisions Relating to the Bond Insurer Policy.

(a) The Borrower agrees that it will (i) furnish to the Bond Insurer, annually and at such other reasonable times as the Bond Insurer shall request, current financial statements, (ii) permit the Bond Insurer or its agents and representatives to inspect the Borrower's books and records and make extracts therefrom and (iii) provide the Bond Insurer with such additional information as the Bond Insurer may reasonably request.

(b) The Borrower will permit the Bond Insurer to discuss the affairs, finances and accounts of the Borrower or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Borrower. The Borrower will permit the Bond Insurer to have access to and to make copies of all books and records relating to the Bonds at any reasonable time.

(c) The Borrower's obligations to the Bond Insurer under this Loan Agreement shall be effective only while the Bond Insurer Policy is in effect and no Bond Insurer Default (as defined in the Trust Agreement) has occurred and is continuing. All information to be sent to the Bond Insurer shall be forwarded by the Borrower to the attention of the Bond Insurer's Surveillance Department, unless otherwise indicated by written notice from the Bond Insurer.

IN WITNESS WHEREOF, the North Carolina Capital Facilities Finance Agency has caused these presents to be signed in its name and on its behalf by its Secretary-Treasurer and Duke Energy Carolinas, LLC has caused these presents to be signed in its name and on its behalf by its Assistant Treasurer and attested by its Assistant Secretary, as of the date first above written.

**NORTH CAROLINA CAPITAL FACILITIES
FINANCE AGENCY**

By: _____

Secretary-Treasurer

DUKE ENERGY CAROLINAS, LLC

By: _____

Assistant Treasurer

Attest:

Assistant Secretary

[Signature Page to Duke Energy Carolinas Project Series 2007A Loan Agreement]

IN WITNESS WHEREOF, the North Carolina Capital Facilities Finance Agency has caused these presents to be signed in its name and on its behalf by its Secretary-Treasurer and Duke Energy Carolinas, LLC has caused these presents to be signed in its name and on its behalf by its Assistant Treasurer and attested by its Assistant Secretary, as of the date first above written.

**NORTH CAROLINA CAPITAL FACILITIES
FINANCE AGENCY**

By: _____
Secretary-Treasurer

DUKE ENERGY CAROLINAS, LLC

By: Stale May
Assistant Treasurer

Attest:

Robert Fucina
Assistant Secretary

[Signature Page to Duke Energy Carolinas Project Series 2007A Loan Agreement]

DESCRIPTION OF THE PROJECT

The Project means the acquisition, installation and construction of flue gas desulphurization (or "scrubber") equipment and related infrastructure at the Marshall Steam Station in Catawba County, North Carolina, the Belews Creek Steam Station in Stokes County, North Carolina and the Allen Steam Station in Gaston County, North Carolina.

PROMISSORY NOTE

Charlotte, North Carolina
November 15, 2007

FOR VALUE RECEIVED, Duke Energy Carolinas, LLC, a limited liability company existing under and by virtue of the laws of the State of North Carolina (together with its successors and assigns, the "Borrower"), promises to pay the North Carolina Capital Facilities Finance Agency (the "Agency"), or order, the principal sum of FIFTY MILLION DOLLARS (\$50,000,000) together with (a) interest thereon at such rate or rates as in the aggregate will produce an amount equal to the total of all interest becoming due and payable on the North Carolina Capital Facilities Finance Agency Solid Waste Disposal Revenue Bonds (Duke Energy Carolinas Project) Series 2007A (the "Bonds"), in the aggregate principal amount of \$50,000,000 issued pursuant to a Trust Agreement, dated as of October 1, 2007, between the Agency and Deutsche Bank National Trust Company, Bond Trustee (the "Trust Agreement"), which is incorporated herein by reference and made a part hereof, and (b) such other amounts as are required to be paid by the Borrower to the Agency as part of the Loan Repayments as provided in the Loan Agreement, dated as of October 1, 2007, between the Borrower and the Agency (the "Agreement"), which is incorporated herein by reference and made a part hereof.

The foregoing amounts shall be paid by means of the Loan Repayments which shall be due and payable as provided below. The respective Loan Repayments shall be in amounts equal to the sum of the following (less any credits to which the Borrower may be entitled under the Agreement):

- (a) to the credit of the Interest Account, on each Interest Payment Date, at such time as will enable the Bond Trustee to make the payment of interest required by the Trust Agreement, that amount which shall be equal to the interest payable on the Bonds on such Interest Payment Date;
- (b) to the credit of the Principal Account, on November 1, 2040, the amount required to be paid at maturity of the Bonds on such November 1, 2040;
- (c) to the credit of the Interest Account, any amounts that may from time to time be required to enable the Bond Trustee to pay the accrued interest on Bonds purchased or redeemed from money in the Redemption Fund in accordance with Section 505 of the Trust Agreement.

This Note is due on November 1, 2040 unless the term hereof is extended in accordance with the Agreement and the Trust Agreement.

The Borrower shall have the option to make advance payments of Loan Repayments from time to time, which advance payments shall be deposited by the Bond Trustee in the Redemption Fund established by the Trust Agreement and shall be used as provided in the Agreement and the Trust Agreement.

If the Borrower should default in the payment of any installment due under this Note or if any one or more of the events of default specified in the Agreement should occur, and if any such default is not remedied as provided in the Agreement, the Agency then, or at any time thereafter, may give notice to the Borrower declaring all unpaid amounts of this Note then outstanding, together with all other unpaid amounts outstanding under the Agreement, to be immediately due and payable, and thereupon, without further notice or demand, all such amounts shall become and be immediately due and payable. Failure to exercise this option shall not constitute a waiver of the right to exercise the same at any time in the event of any continuing or subsequent default. In the event of default in the payment of this Note, the undersigned hereby agrees to pay all costs incurred in connection with the collection of the amounts then due thereon, including reasonable attorneys' fees (as determined pursuant to Section 10.12 of the Agreement).

The Borrower hereby waives presentment for payment, demand, protest, notice of protest and notice of dishonor.

This Note and all instruments securing the same are to be construed according to the laws of the State of North Carolina.

DUKE ENERGY CAROLINAS, LLC

By: _____
Assistant Treasurer

Attest:

Assistant Secretary